

# Cellular South Licenses, Inc. Alliance of Rural CMRS Carriers Ex Parte Presentation

September 15, 2008

Universal Service Reform  
WC Docket No. 05-337  
Intercarrier Compensation Reform  
CC Docket No. 01-92

# The Proposal to Cut IAS and ICLS Support Will Significantly Reduce Investment in Rural Areas

- Combined, IAS and ICLS total approximately \$740 million of annual support to CETCs nationally, over half of the total available.
- The FCC's proposal to cut IAS/ICLS support to CETCs will reduce support to individual states by up to 100%.
- CETCs, which are required to invest these funds into their networks, will cut investments in those states by a corresponding amount.
- The cost savings to consumers of these cuts is less than 17 cents per month, or \$2 a year.
- Some proposals would simply reserve these funds for wireline carriers.

# The Proposal to Cut IAS and ICLS Support Will Significantly Reduce Investment in Rural Areas

(cont'd)

Annual Loss of IAS/ICLS Support to CETCs in Selected Rural States:

- California: 100% - \$1.5 M
- Virginia: 98% - \$14 M
- Florida: 97% - \$15 M
- Georgia: 92% - \$7 M
- Pennsylvania: 90% - \$1.2 M
- New Hampshire: 88% - \$1 M
- New York: 87% - \$2.5 M\*
- North Carolina: 86% - \$8 M\*
- Illinois: 75% - \$23 M
- Tennessee: 73% - 3.3 M
- Nevada: 69% - \$4.7 M
- Washington: 68% - \$31 M
- Texas: 62% - \$22 M
- Indiana: 62% - \$4.7 M
- Oregon: 58% - \$13 M

\* Does not include recent ETC designations.

# The Proposal to Cut IAS and ICLS Support Will Significantly Reduce Investment in Rural Areas

(cont'd)

Annual Loss of IAS/ICLS Support to CETCs in Selected Rural States:

- Utah: 58% - \$0.6 M
- Wisconsin: 56% - \$33 M
- Alaska: 55% - \$43 M
- South Carolina: 55% - \$3.8 M
- Iowa: 54% - \$34 M
- Minnesota: 48% - \$23 M
- New Mexico: 48% - \$9.1 M
- Oklahoma: 46% - \$14 M
- North Dakota: 45% - \$20 M
- Maine: 44% - \$5 M
- Arizona: 43% - \$6 M
- Kentucky: 43% - \$12 M
- Arkansas: 42% - \$11 M
- Michigan: 41% - \$9 M

# The Proposal to Cut IAS and ICLS Support Will Significantly Reduce investment in Rural Areas

(cont'd)

## Annual Loss of IAS/ICLS Support to CETCs in Selected Rural States:

- Alabama: 39% - \$7 M
- Nebraska: 39% - \$22 M
- West Virginia: 38% - \$22 M
- Missouri: 38% - \$13 M
- Colorado: 38% - \$4 M
- South Dakota: 37% - \$13 M
- Hawaii: 35% - \$12 M
- Idaho: 35% - \$3.4 M
- Louisiana: 35% - \$23 M
- Montana: 35% - \$5.8M
- Vermont: 34% - \$2.1 M
- Kansas: 30% - \$25 M
- Wyoming: 29% - \$6.1 M
- Mississippi: 12% - \$20 M

## Three Critical Reforms to Control Fund Growth and Make Room for Broadband and Mobility:

- Support Must Be Made “Fully Portable” -- The Carrier That Gets the Customer Gets the Support.
- Support Must be Accurately Targeted to Areas that Are “High-Cost”.
- The “cost-plus” mechanism must be replaced with an efficient mechanism that works in increasingly competitive markets.

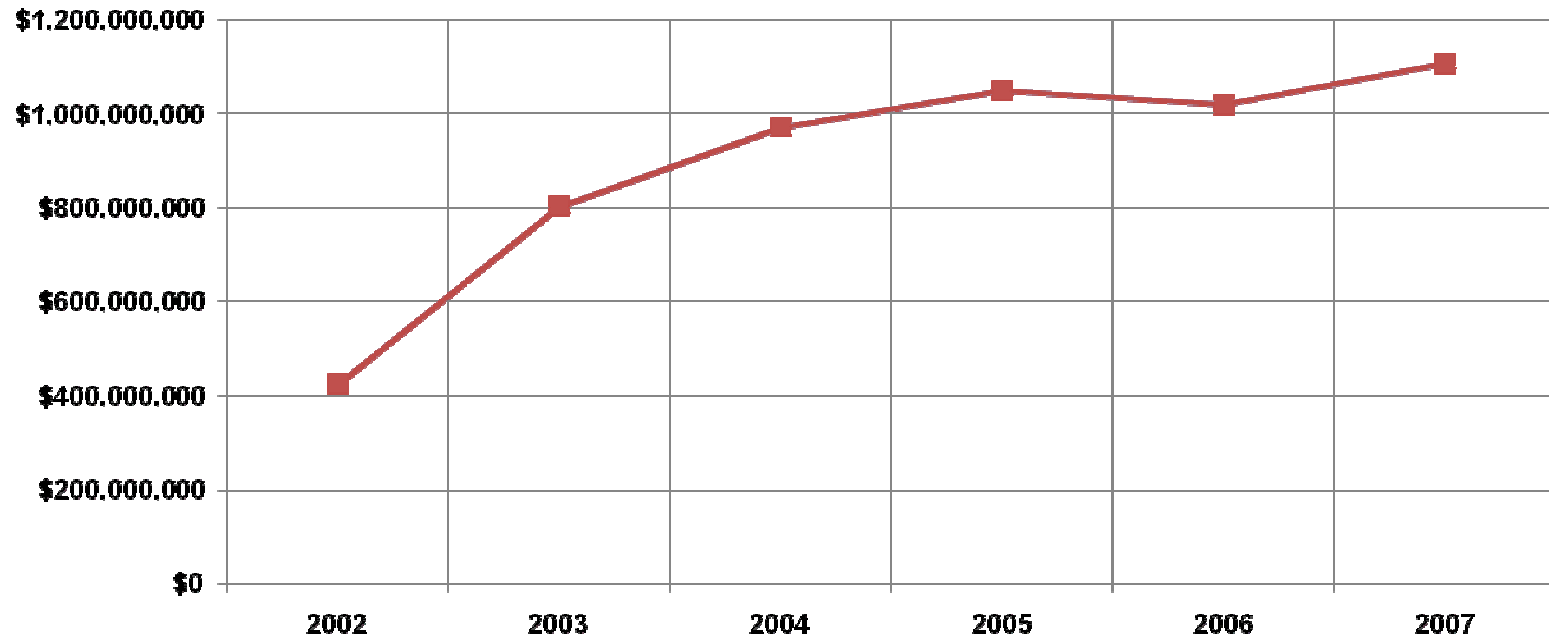
### Portability:

Support is provided to the carrier that wins the customer and is removed from the carrier that loses the customer

**To ensure competitive neutrality, we believe that a competitor that wins a high-cost customer from an incumbent LEC should be entitled to the same amount of support that the incumbent would have received for the line, including any interim hold-harmless amount.** While hold-harmless amounts do not necessarily reflect the forward- looking cost of serving customers in a particular area, we believe this concern is outweighed by the competitive harm that could be caused by providing unequal support amounts to incumbents and competitors. **Unequal federal funding could discourage competitive entry in high-cost areas and stifle a competitor's ability to provide service at rates competitive to those of the incumbent.**

Federal-State Joint Board on Universal Service, Ninth Report & Order and Eighteenth Order on Reconsideration, 14 FCC Rcd 20,432, 20,480 (1999).

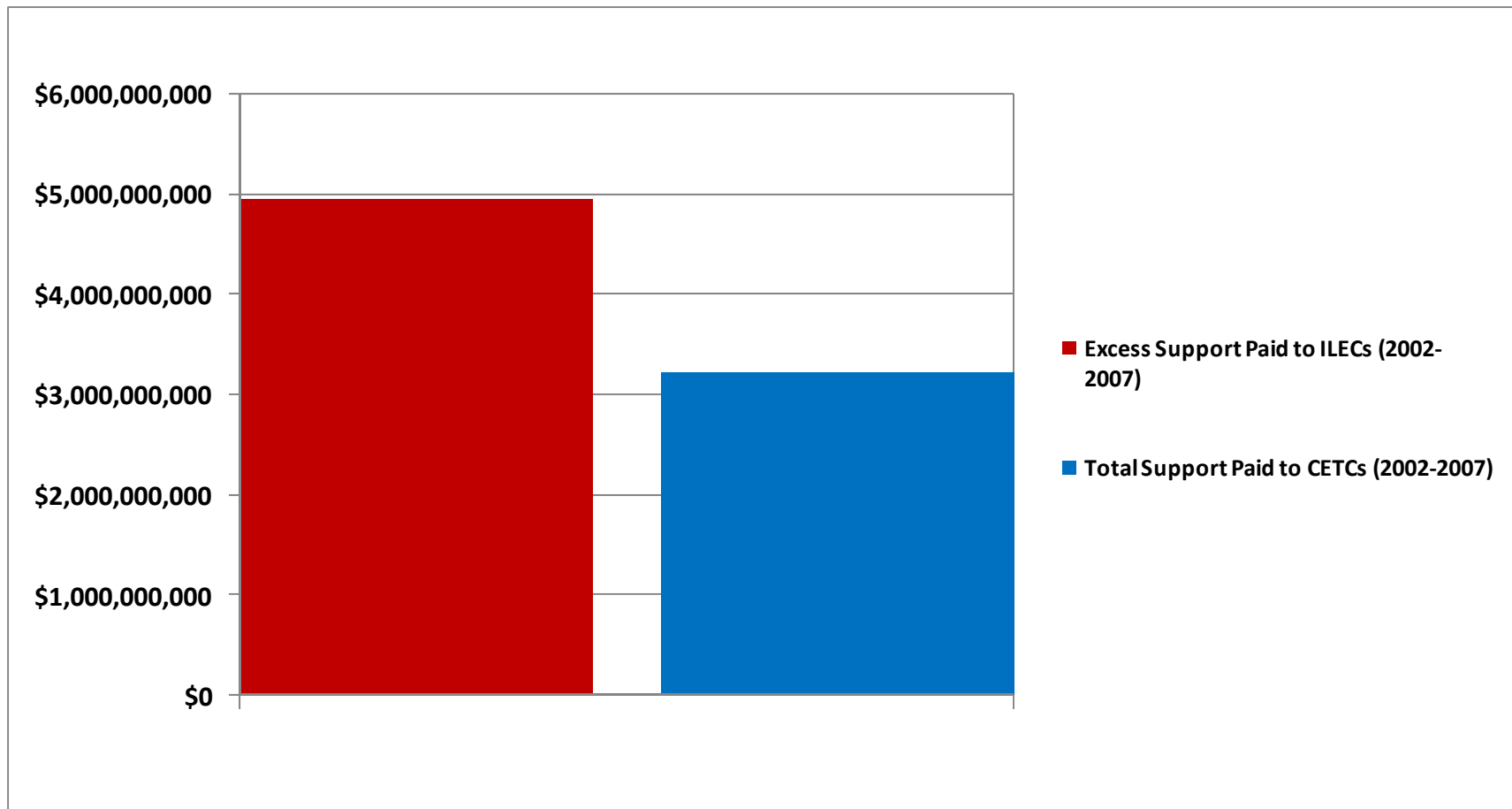
## Potential Annual Savings if ILEC Support Declined at Same Rate as Loop Counts



NOTE: Loop counts are as of June of each year, except for 2007 (December 2006 figures used)



# **Savings from Reduction of ILEC Support as Loop Counts Declined Would Have More Than Offset ALL Support to CETCs from 2002 to 2007**



# Summary of Portability

- Portability is required by law.
- Portability *is* competitively neutral.
- Portable support allows the FCC to control fund growth.
- Portability allows newcomers to enter and compete in rural areas on a level playing field.
- Portability allows **consumers** to choose – not government.
- Today, only CETCs are subject to full portability.

# Proposed Hold Harmless Provision

- A hold harmless provision can assist small carriers through a transition period to full portability. Here are two examples:
- Scenario 1: ILECs up to 5,000 access lines can be held harmless for up to 20% of access line loss for \$165 million (3 cents/mo.)
- Scenario 2: ILECs up to 10,000 access lines can be held harmless for up to 20% of access line loss for \$266 million (5 cents/mo).
- The amount of hold harmless can be easily implemented and adjusted.

# Targeting of Support

- In many areas, support continues to be provided throughout a rural ILEC study area rather than targeted only to the highest-cost areas that need investment the most.
- Failure to target support reduces incentives to build out into rural areas.
- Support must be targeted more accurately.

# Targeting of Support

Solution:

Amend 47 C.F.R. Section 315 to require ILECs to disaggregate support at the wire center level.

# Disaggregation Explained

Highland Cellular  
example:

**Table 1**

Wire Center Name	Number of Customers	Support Available	Total
Athens	686	\$11.92	\$8,177.12
Bluefield	3,470	\$11.92	\$41,362.40
Bluewell	640	\$11.92	\$7,628.80
Bramwell	113	\$11.92	\$1,346.96
Matoaka	239	\$11.92	\$2,848.88
Oakvale	198	\$11.92	\$2,360.16
Princeton	4,521	\$11.92	\$53,890.32
Frankford	282	\$37.72	\$10,637.04
Rupert	27	\$16.80	\$453.60

**Total Without Disaggregation: \$128,705.28**

## Disaggregation Explained (cont'd)

Highland Cellular example:

**Table 2**

Wire Center Name	Number of Customers	Support Available	Total
Athens	686	\$38.24	\$26,232.64
Bluefield	3,470	\$0.00	\$0.00
Bluewell	640	\$20.44	\$13,081.60
Bramwell	113	\$20.44	\$2,309.72
Matoaka	239	\$38.24	\$9,139.36
Oakvale	198	\$38.24	\$7,571.52
Princeton	4,521	\$0.00	\$0.00
Frankford	282	\$34.04	\$9,599.28
Rupert	27	\$23.80	\$642.60

**Total With Disaggregation: \$68,576.72**

# Summary of ICC/USF Reform

- ICC – Short-term, termination rate harmonized at \$0.0007 and transport rates reduced to cost-based rate. Long-term, bill and keep for all traffic.
- Any additional support must be made fully portable among all carriers.
- Target support to highest-cost areas.
- Define COLR and require all ETCs to accept COLR obligations.
- CETCs are permitted to use support to provide broadband service.
- Hold harmless provision put in place for small carriers through transition period – begin proceeding to reform ILEC support.